

service providers.¹ Rather, they were offered to provide information to fill a void left by the LEC PSPs' general failure to provide reliable cost data for the Commission to review.²

3. I have reviewed the "adjustments" proposed to the Project Quintet data by the LEC Coalition and APCC, and I find only a few of them are worth considering. Most of the proposed adjustments are either significantly overstated or completely meritless. In total, the LEC Coalition suggests that the 19.5 cent total cost per-call indicated from the Project Quintet data should be increased by 16.8 cents per call. My analysis below indicates that, at most, the original Project Quintet data might be adjusted upward by 4.3 to 4.8 cents, to produce a total per-call cost to SBC of 23.8 to 24.3 cents per call. As also shown below, when commissions and coin-related costs are removed from this figure, it produces a maximum cost-based per-call compensation rate of only 15.9 to 16.4 cents per call based on the average number of calls per month reported by the LEC Coalition.

¹ LEC Coalition, p. ii.

² APCC is incorrect that my affidavit attached only a portion of the SBC-provided data for Project Quintet. I attached all pages of the material marked "Project Quintet" that AT&T received. The pages AT&T did not provide were materials prepared by the potential purchaser, and did not relate to SBC's assessment of its payphone costs.

4. Return on assets. The Andersen Report suggests that the return on assets figure implied in the Project Quintet data is too low by 0.9 cents per call.³ Adding an amount to reflect this factor would not be inconsistent with my prior analysis.

5. Common costs. The Andersen Report suggests that 2.2 cents per call should be added to reflect additional common costs, such as "treasury, legal, real estate management, etc."⁴ This amount is excessive. First, there is no support provided for the proposed increase. Although it is true that there is no separate line in the Project Quintet analysis called "General and Administrative" costs, this does not mean that none of the other lines capture any of these costs. In fact, the Project Quintet data show a 3.0 cent cost per call for "Other Expenses." Moreover, at a 2.2 cent per-call rate, this would amount to about 384 people at an average cost of \$58,000 per year to cover such expenses, or one G&A person for every two of the 734 employees in the SBC Public Communications Group. Based on my experience, if any amount were added for this category of expense, it should not exceed 1.0 cents per call.

³ LEC Coalition, Report of Arthur Andersen, dated January 7, 1998 (Andersen Report"), p. 3.

⁴ Id.

6. Flex ANI expense. Based on arguments in the LEC Coalition's brief, the Andersen Report suggests that 1.9 cents per call should be added to cover the costs of Flex ANI implementation.⁵ As AT&T shows in its brief, however, these costs should be reduced to zero, and at most should not exceed 0.5 cents.

7. Uncollectible costs. Again, the Andersen Report relies on arguments in the LEC Coalition brief, rather than any economic analysis, regarding such costs.⁶ AT&T's opposition to the LEC Coalition's petition for reconsideration, however, shows that these claimed costs of 5 cents per call are invalid and should not be credited. However, SBC should be entitled to the 0.8 cent figure for interest in the Second Report and Order.

8. Depreciation expense. The Andersen Report states that, based on undisclosed discussions with SBC personnel, the depreciation factor used in the Project Quintet data was 5%, inferring a depreciation life of 20 years. An increase in the depreciation expense would be appropriate to apply the general 10-year depreciation life used in the Commission's analysis, but not to a "five to seven year" period referenced by the Andersen Report. Thus, the

⁵ Id. p. 4.

⁶ Id.

depreciation expense should not be increased by the 1.7 cents Andersen suggests, but only by 0.9 cents per call.⁷

9. Line charges. The Andersen Report (p. 5) correctly states that the line charges in the Project Quintet data do not reflect the fact that in 1994 SBC did not have access tariffs in place for dumb payphones. However, the suggested increase of 4.2 cents per call -- which not supported by any analysis -- is clearly excessive. Adding that amount to the 7.1 cents already included in the Project Quintet analysis would boost the SBC line rate to 11.3 cents per call, which is substantially higher than the rates reported anywhere else in the record.⁸ Thus a more realistic figure to add is 1.5 cents, the difference between the reported 7.1 cents and the average figure reported elsewhere.

10. Commissions. The Andersen Report (p. 6) argues that commission costs should be increased by 1.8 cents per call to reflect "current commission rates." However, the Commission's analysis properly excludes all commissions. Thus, this amount should be disregarded. In any event, the

⁷ As shown in Attachment II, the actual average useful life of BOC payphone equipment is 13.5 years. Thus, the 10-year analysis above is generous.

⁸ Average total line costs (basic line plus usage) in the record ranged from 8.0 cents (Peoples and CCI) to 9.0 (Sprint), and 9.2 cents (APCC). The average of these figures is 8.6 cents.

commissions in the Project Quintet analysis (3.3 cents) are already higher than the commissions reported by Sprint (3.0 cents). Thus, no adjustment is appropriate.

11. Reductions due to deregulation. Andersen states that regulatory accounting changes have caused a reduction in costs in the amount of 0.8 cents per call. I have no basis to dispute this analysis.

12. In sum, the maximum increase in costs of the Project Quintet data that could reasonably be recognized is 4.3 to 4.8 cents.

Return on assets	0.9 cents
Common costs	1.0
Flex ANI	0.0-0.5
Interest	0.8
Depreciation	0.9
Line charges	1.5
Commissions	0.0
Regulatory accounting	<u>(0.8)</u>
Total	4.3 to 4.8 cents

13. Adding these amounts to the 19.5 cents reflected in the Project Quintet data yields a total cost of 23.8 to 24.3 cents per call, including commissions. After deducting commission costs of 3.3 cents and the FCC calculated costs for coin collection and maintenance and local call completion (adjusted downward to reflect the 478 average call volume provided by the LEC Coalition), the net cost for coinless calls is, at most, between 15.9 and 16.4 cents (See Attachment III). This amount is generous because it (1) does not include any deduction for the coin mechanism

(because the total depreciation costs amount to 1.8 cents), and (2) it is not based on a 542 call-count, which would reduce the costs even further (about 2 cents per call).

14. Finally, the revised Project Quintet data, including the adjustments referenced above, indicate a total contribution to SBC of 1.6 to 2.1 cents per call based on a 25 cent local coin rate. This includes 0.9 cents of return on assets and an additional return of 0.7 to 1.2 cents per call based on the LEC Coalition's reported call volumes.*

This concludes my affidavit.

David C. Robinson
David C. Robinson

Sworn to before me this
20th day of January, 1998

Peggy C. Brown
Notary Public

My commission expires 8/5/02

* The total contribution would nearly double if the analysis were performed using the FCC-derived call count of 542 calls per month.

**COST COMPARISON - CENTS/CALL
@ RBOC VOLUMES (478 CALLS/MO.)**

<u>SBC PROJECT QUINTET</u>		<u>ANDERSEN ANALYSIS</u>		<u>REVISED PROJ. QUINTET VIEW</u>	
		<u>SUGGESTED ADDS</u>	<u>TOTAL</u>	<u>APPROPRIATE ADDS</u>	<u>TOTAL</u>
Salaries/Benefits	4.2	0	4.2		4.2
Commissions	3.3	1.7	5.0	0	3.3
Line Charges/Usage	7.1	4.2	11.3	1.5	8.6
Other Expense	3.0	2.2 ①	5.2	1.0	4.0
Depreciation	.9	1.7	2.6	.9	1.8
Interest Expense	.2	0	.2	-	.2
Income Tax on Earnings	.8	0	.8	-	.8
Flex ANI	0	1.9	1.9	0 to .5	0 to .5
PCC Collect/Debt/Interest	0	5.0	5.0	.8	.8
Return on Assets	0	.9	.9	.9	.9
Change in Reg. Rules	0	(.8)	(.8)	(.8)	(.8)
TOTAL	19.5	+16.8	36.3	+4.3 to 4.8	23.8 to 24.3

①ANDERSEN "COMMON" EXPENSE

**FCC COMMON CARRIER STATISTICS
RBOC DATA (TABLE 2.8)
(\$000)**

Year Ending	Beginning Plant	Plant Added	Plant Retired	Transfer Adjust.	Ending Plant
1992	\$1,299,016	\$98,234	\$125,186	6,589	\$1,278,653
1993	1,278,652	125,148	80,788	(2,088)	1,320,923
1994	1,320,924	121,529	67,468	1,525	1,376,510
1995	1,376,510	112,798	83,391	73	1,405,990
Total		\$457,709	\$356,833		
Ave.	1,318,775	114,427	89,208		
Ave./RBOC	\$188,396	\$16,346	\$12,744		

*NOTE: Ave. RBOC gross PP&E of \$188,396,000 for 1992-1995
vs.
Project Quintet ave. of \$189,461,000 for 1992-1995

Difference of less than 1%

Calculation of Depreciable Life:

Method I: $\$188.4\text{M} - \$16.3\text{M} \div \$12.7\text{M} = 13.5 \text{ years}$
Method II: $\$188.4\text{M} \div \$12.7\text{M} = 14.8 \text{ years}$

Calculation of addition to Project Quintet Depreciation Expense:

- Use 13.5 years (7.4%/year)
- Plant in 1997 = \$183.7M
- $\$183.7\text{M} \times 0.74 \div (175,552 \times 12,478 \text{ calls}) = 1.3 \text{ cents}$

PER CALL COMPENSATION DETERMINATION CENTS/CALL

	<u>Amount</u>		<u>Comments</u>
	Low	High	
Adjusted SBC Based Total Cost:	23.8	24.3	Flex ANI Range
Remove Commissions	(3.3)	(3.3)	
Adjust for Local Call Completion	(2.4)	(2.4)	$478 \div 542 \times 2.75$ ❶
Adjust for Coin Coll/Maint.	(2.2)	(2.2)	$478 \div 542 \times 2.55$ ❶
Maximum Per Call Cost	15.9	16.4	

NOTE: NO ADJUSTMENT FOR COIN MECHANISM OR FCC CALL COUNT

❶ FCC Mid Points

Certificate of Service

I, Rena Martens, do hereby certify that on this 20th day of January, 1998, a copy of the foregoing "AT&T Reply" was served by U.S. first class mail, postage prepaid, to the parties listed below.

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